

General Information Letter: Illinois Development Finance Authority bonds are exempt from Illinois income taxation, while Illinois State Sales Tax Bonds are not.

October 27, 1999

Dear:

Your fax to the attention of Jackson Donley, dated October 22, 1999, in which you requested a general information letter was assigned to me for a reply. Department of Revenue ("Department") regulations require that the Department issue only two types of letter rulings, Private Letter Rulings ("PLRs") and General Information Letters ("GILs"). PLRs are issued by the Department in response to specific taxpayer inquiries concerning the application of a tax statute or rule to a particular fact situation. A PLR is binding on the Department, but only as to the taxpayer who is the subject of the request for ruling and only to the extent the facts recited in the PLR are correct and complete. GILs do not constitute statements of agency policy that apply, interpret or prescribe the tax laws and are not binding on the Department. For your general information we have enclosed a copy of 2 Ill. Adm. Code Part 1200 regarding rulings and other information issued by the Department.

Although you have not specifically requested either type of ruling, the nature of your question and the information provided require that we respond only with a GIL.

In your letter you have stated:

Please advise me ( and xxxxx xxxxxxxxx xxxxxxx, xxx.) if the interest from the following two (2) Illinois bonds are exempt from Illinois Corporate income tax. (xxxxxx xxxxxxxxx xxxxxxx, xxx. did not claim interest from the two municipal bonds because the broker told us it was double-exempt. xxxxx xxxxxxxxx has now been challenged by I.D.O.R. as to its taxability on FORM IL-1120. IDOR instructed me to contact you as the final authority on the matter.) The two bonds are:

1.) IL DEV FIN AUTH REV  
COMMUNITY UNIT SCHOOL DIST 300  
DTD 06/30/1994  
FGIC INSURED

2.) ILLINOIS STATE SALES TAX  
REVENUE  
DTD 06/19/1990

## DISCUSSION

A corporation begins the calculation of its Illinois income tax liability by determining "base income." Base income for a corporation is defined in §203(b) of the Illinois Income Tax Act ("IITA") as federal taxable income as modified by the additions and subtractions listed in §203(b)(2). Subtractions from taxable income are only allowed if specific authorization is granted. Your question concerns §203(b)(2)(J) of the IITA which states:

(J) An amount equal to all amounts included in such total which are exempt from taxation by this State either by reason of its statutes or Constitution or by reason of the Constitution, treaties or statutes of the United States; provided that, in the case of any statute of this State that exempts income derived from bonds or other obligations from the tax imposed under this Act, the amount exempted shall be the interest net of bond premium amortization;

Accordingly, for interest income from a bond to be exempt from the Illinois income tax authority must be given in the statute authorizing the issuance of the bond. Publication 101 (copy enclosed) gives a list of all bonds which have an authorized exemption from income tax. The first bond you mentioned, the Illinois Development Finance Authority bond, is listed on this publication. A review of the Illinois Development Finance Authority Act, found at 20 ILCS 3505/7.61, shows that the income from bonds issued pursuant to the act are exempt from taxation by Illinois.

The second bond mentioned in your letter, the Illinois State Sales Tax bond, is not found on the list in Publication 101. Without specific authorization the income from such bond is not, therefore, deductible.

Please feel free to correspond with me further if I may be of additional assistance.

Sincerely,

Charles E. Matoesian  
Associate Counsel - Income Tax